

**Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 2012**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and where appropriate at the office of the parish clerk of court.

Release Date JUL 03 2013

Table of Contents

Independent Auditor's Report	Page	3
Financial Statements		
Statements of Financial Position	Page	4
Statements of Activities	Page	5
Statements of Functional Expenses	Page	6
Statements of Cash Flows	Page	7
Notes to Financial Statements	Page	8

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

LOUIS C. McKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.
NEAL D. KING, C.P.A.
KARIN S. LEJEUNE, C.P.A.
ALYCE S. SCHMITT, C.P.A.



CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

June 4, 2013

Independent Auditor's Report

The Officers and Board of Trustees
Pennington Medical Foundation
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Pennington Medical Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennington Medical Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

**Pennington Medical Foundation
Statements of Financial Position
December 31, 2012 and 2011**

A s s e t s		
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 43,884	\$ 56,490
Investments, at fair value	32,773,966	31,304,432
Accrued royalties	36,858	28,492
Prepaid expenses	<u>61,521</u>	<u>56,287</u>
Total current assets	32,916,229	31,445,701
 Assets Held in Trust	 2,101,115	 2,352,820
 Property and Equipment, Net	 34,532,315	 35,743,583
 Other Assets		
Bond issuance costs, net	<u>229,515</u>	<u>239,494</u>
 Total assets	 <u><u>\$69,779,174</u></u>	 <u><u>\$69,781,598</u></u>
 L i a b i l i t i e s a n d N e t A s s e t s		
Current Liabilities		
Accounts payable	\$ 8,611	\$ 23,699
Due to related parties	132,723	131,005
Bonds payable, current maturities	305,000	290,000
Unamortized bond premium, current maturities	16,769	16,769
Accrued interest payable	<u>461,105</u>	<u>468,385</u>
Total current liabilities	<u>924,208</u>	<u>929,858</u>
 Long-Term Liabilities		
Bonds payable, less current maturities	18,160,000	18,465,000
Unamortized bond premium, less current maturities	368,911	385,679
Deferred compensation liability	<u>30,000</u>	<u>15,000</u>
Total long-term liabilities	<u>18,558,911</u>	<u>18,865,679</u>
 Total liabilities	 <u>19,483,119</u>	 <u>19,795,537</u>
 Net Assets		
Unrestricted	28,009,474	28,040,930
Unrestricted - designated	<u>22,286,581</u>	<u>21,945,131</u>
Total net assets	<u>50,296,055</u>	<u>49,986,061</u>
 Total liabilities and net assets	 <u><u>\$69,779,174</u></u>	 <u><u>\$69,781,598</u></u>

The accompanying notes are an integral part of these financial statements

Pennington Medical Foundation
Statements of Activities
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenue		
Investment earnings (losses)	\$ 3,541,726	\$ (354)
Rental	98,660	123,874
Contributions	<u>5,000</u>	<u>5,000</u>
Total revenue	<u>3,645,386</u>	<u>128,520</u>
Expenses		
Program services	3,023,018	3,283,536
General and administrative	<u>312,374</u>	<u>306,644</u>
Total expenses	<u>3,335,392</u>	<u>3,590,180</u>
Change in Net Assets	<u>309,994</u>	<u>(3,461,660)</u>
Net Assets, Unrestricted		
Beginning of year	<u>49,986,061</u>	<u>53,447,721</u>
End of year	<u>\$50,296,055</u>	<u>\$49,986,061</u>

The accompanying notes are an integral part of these financial statements

Pennington Medial Foundation
Statements of Functional Expenses
Years Ended December 31, 2012 and 2011

	<u>December 31, 2012</u>			<u>December 31, 2011</u>		
	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Total</u> <u>Expenses</u>	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Total</u> <u>Expenses</u>
Pennington Biomedical Research Center						
Executive Director Fund	\$ 286,433	\$ —	\$ 286,433	\$ 627,705	\$ —	\$ 627,705
Projects	203,119	—	203,119	4,861	—	4,861
Executive Director Deferred Comp	15,000	—	15,000	15,000	—	15,000
Contracts and supplements	138,518	68,226	206,744	163,748	74,496	238,244
Investment fees	—	96,256	96,256	—	80,036	80,036
Professional fees	90,055	96,822	186,877	122,436	82,982	205,418
Office expense	—	1,167	1,167	—	6,963	6,963
Severance tax	—	14,972	14,972	—	12,557	12,557
Taxes	—	954	954	—	24	24
Depreciation/amortization expense	1,204,478	—	1,204,478	1,231,470	—	1,231,470
General development	—	5,999	5,999	—	8,549	8,549
Equipment maintenance	—	4,620	4,620	—	4,744	4,744
Travel	—	—	—	—	6,088	6,088
Insurance	109,989	23,158	133,147	101,799	27,060	128,859
Bond related costs	5,150	—	5,150	4,850	—	4,850
Professional dues/subscriptions	—	200	200	—	3,145	3,145
Donations	5,000	—	5,000	—	—	—
Interest	929,431	—	929,431	936,740	—	936,740
Residence Center	35,845	—	35,845	74,927	—	74,927
	<u>\$3,023,018</u>	<u>\$312,374</u>	<u>\$3,335,392</u>	<u>\$3,283,536</u>	<u>\$306,644</u>	<u>\$3,590,180</u>

The accompanying notes are an integral part of these financial statements

Pennington Medial Foundation
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 309,994	\$ (3,461,660)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,211,268	1,238,260
Realized (gains) losses on investments	739,497	(1,683,071)
Unrealized depreciation (appreciation) on investments	(3,040,555)	3,209,935
Bond premium amortization	(16,769)	(16,769)
Bond issuance cost amortization	9,979	9,979
(Increase) Decrease in assets		
Due from related parties	—	5,022
Accounts receivable	—	12,664
Accrued royalties	(8,366)	(10,707)
Prepaid expenses	(5,234)	1,659
Increase (Decrease) in liabilities		
Accounts payable	(15,088)	(1,785)
Due to related parties	1,718	(92,399)
Accrued interest payable	(7,280)	30
Deferred compensation liability	<u>15,000</u>	<u>15,000</u>
Net cash used in operating activities	<u>(805,836)</u>	<u>(773,842)</u>
Cash Flows From Investing Activities		
Purchase of investments	(1,680,730)	(1,502,541)
Proceeds from sale of investments	<u>2,512,255</u>	<u>2,319,173</u>
Net cash provided by investing activities	<u>831,525</u>	<u>816,632</u>
Cash Flows From Financing Activities		
Principal payments on bonds payable	(290,000)	—
(Increase) Decrease in assets held in trust	<u>251,705</u>	<u>(3)</u>
Net cash used in financing activities	<u>(38,295)</u>	<u>(3)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,606)	42,787
Cash and Cash Equivalents, beginning of year	<u>56,490</u>	<u>13,703</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 43,884</u></u>	<u><u>\$ 56,490</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 936,711</u>	<u>\$ 936,710</u>
Cash paid during the year for income taxes	<u>\$ —</u>	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 1-Nature of Operations

Pennington Medical Foundation (the Foundation) is a non-profit organization created in 1980 exclusively for scientific purposes in constructing and equipping Pennington Biomedical Research Center (the Center), a campus of the Louisiana State University System. The Foundation provides financial support, in conjunction with Pennington Biomedical Research Foundation (the Research Foundation), for medical research conducted at the Center.

Note 2-Summary of Significant Accounting Policies

A Basis of Accounting

The accompanying financial statements have been presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

B Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include those net assets whose use by the Foundation is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those net assets whose use by the Foundation has been limited by donors (a) to later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions permanently limiting the Foundation's use of the assets. At December 31, 2012 and 2011, the Foundation had no temporarily or permanently restricted net assets.

C Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The Foundation utilizes various investment instruments which, by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the Statements of Financial Position.

D Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered.

**Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012**

Note 2-Summary of Significant Accounting Policies (Continued)

E Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance, charge-offs, and delinquency are estimated from historical experience and management's evaluation of outstanding accounts receivable. No allowance was recorded as of December 31, 2012 and 2011.

F Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based on quoted market prices. For those investments where quoted market prices are unavailable, management estimates fair value based on information provided by the fund managers or the general partners. Dividend, interest, and other investment income is recorded as an increase in unrestricted, temporarily restricted, or permanently restricted net assets depending on donor stipulations.

Donated investments are recorded at their fair value at the date of receipt, which is then treated as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. Realized gains and losses are recognized in the Foundation's current operations.

G Property and Equipment

Property and equipment are capitalized at cost. Maintenance and repair expenditures are expensed as incurred. Depreciation is computed using straight line and accelerated methods over the estimated useful lives as follows:

Infrastructure	7 - 15 years
Buildings	39 years
Equipment	5 - 7 years

H Bond Issuance Costs

Bond issuance costs of \$269,431 are amortized over the term of the bond agreement using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize bond issuance costs, however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Accumulated amortization for the years ended December 31, 2012 and 2011 was \$39,916 and \$29,937, respectively. Amortization expense for the years ended December 31, 2012 and 2011 was \$9,979. Annual amortization expense over the next five years through December 31, 2017 is estimated to be \$9,979 per year.

I Bond Premium

Unamortized bond premium is being amortized over the life of the bond. The bond premium amortized was \$16,769 in 2012 and 2011.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 2-Summary of Significant Accounting Policies (Continued)

J Income Taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation has been classified as an organization other than a private foundation.

The Foundation follows the provisions of FASB ASC 740, relating to uncertain income tax positions. These standards require management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

Management believes that all of the positions taken on its income tax returns would more likely than not be sustained upon examination. The Foundation's income tax returns for tax years prior to 2009 are generally no longer subject to examination.

The Foundation may be subject to interest and penalties assessed by various taxing authorities. These amounts are classified as other expenses when they occur.

K Capitalized Interest

The Foundation follows the policy of capitalizing interest as a component of the cost of property and equipment constructed for its own use. In 2012 and 2011, the total interest incurred was \$929,431 and \$936,740. No interest was capitalized.

L Functional Expenses

Functional expenses are allocated between program services and general and administrative expenses. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but rather provide for the overall support and direction of the Foundation.

M Reclassifications

Certain amounts for the year ended December 31, 2011 have been reclassified in these comparative financial statements to conform with the current year presentation. These reclassifications had no effect on total net assets or the change in net assets for that year.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 3-Investments

Investments at fair value for the years ended December 31, 2012 and 2011 are comprised of the following

	<u>2012</u>	<u>2011</u>
Short-term investments	\$ 672,503	\$ 930,260
Fixed income	13,804,572	17,409,812
Domestic equity	3,692,721	3,735,848
International equity	4,833,941	5,423,967
Balanced funds	3,192,976	—
Commodity/MLP	1,625,685	—
REIT	449,773	—
Hedge fund of funds	676,267	1,053,221
Venture capital	2,874,951	2,258,465
Mineral interest	<u>950,577</u>	<u>492,859</u>
Total investments, at fair value	<u>\$32,773,966</u>	<u>\$31,304,432</u>

Investment earnings (losses) are comprised of the following for the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Interest income	\$ 26	\$ 4
Dividends	1,103,853	1,395,215
Realized gains (losses) on sales of investments	(739,497)	1,683,071
Unrealized gains (losses) on investments	3,040,555	(3,209,935)
Royalty income	<u>136,789</u>	<u>131,291</u>
Total investment earnings (losses)	<u>\$ 3,541,726</u>	<u>\$ (354)</u>

Note 4-Assets Held in Trust

Assets held in trust totaled \$2,101,115 and \$2,352,820 at December 31, 2012 and 2011, respectively. The majority of these funds are pledged as the Debt Service Reserve Fund for Series 2006 Bonds. The remainder is pledged for principal and interest on the bonds.

Note 5-Property and Equipment

The following schedule shows the changes in property and equipment for the year ended December 31, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Ending Balance</u>
Property and Equipment				
Infrastructure	\$ 304,410	\$ —	\$ —	\$ 304,410
Buildings	44,393,468	—	—	44,393,468
Equipment	<u>3,373,475</u>	<u>—</u>	<u>—</u>	<u>3,373,475</u>
Total property and equipment	48,071,353	—	—	48,071,353
Less accumulated depreciation	<u>(12,327,770)</u>	<u>(1,211,268)</u>	<u>—</u>	<u>(13,539,038)</u>
Property and Equipment, Net	<u>\$ 35,743,583</u>	<u>\$ (1,211,268)</u>	<u>\$ —</u>	<u>\$ 34,532,315</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 5-Property and Equipment (Continued)

The following schedule shows the changes in property and equipment for the year ended December 31, 2011.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Ending Balance</u>
Property and Equipment				
Infrastructure	\$ 304,410	\$ -	\$ -	\$ 304,410
Buildings	44,393,468	-	-	44,393,468
Equipment	<u>3,613,044</u>	<u>-</u>	<u>(239,569)</u>	<u>3,373,475</u>
Total property and equipment	48,310,922	-	(239,569)	48,071,353
Less accumulated depreciation	<u>(11,329,079)</u>	<u>(1,238,260)</u>	<u>239,569</u>	<u>(12,327,770)</u>
Property and Equipment, Net	<u>\$ 36,981,843</u>	<u>\$ (1,238,260)</u>	<u>\$ -</u>	<u>\$ 35,743,583</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$1,211,268 and \$1,238,260, respectively

Note 6-Bonds Payable

In 2006, the Foundation repaid various outstanding bond issues in full with the proceeds from a Series 2006 bond issue, in the total amount of \$45,175,000, along with an additional line of credit. The Series 2006 Bonds were issued with a premium of \$1,257,183 and a fixed interest rate of 4.8%. The bonds are secured by a security interest in the Foundation's assets. Principal payments on the bonds are due in annual payments on June 30th, and the interest payments are due bi-annually on January 1st and July 1st. Less current maturities

	<u>2012</u>	<u>2011</u>
	\$18,465,000	\$18,755,000
	<u>(305,000)</u>	<u>(290,000)</u>
Total bonds payable, less current maturities	<u>\$18,160,000</u>	<u>\$18,465,000</u>

In 2008, the Foundation tendered various maturities of the Series 2006 Bonds in the total amount of \$26,130,000. Through this transaction, the bond premium amount was reduced by \$680,918.

The following schedule shows future maturities of bonds payable

2013	\$ 305,000
2014	320,000
2015	335,000
2016	360,000
2017	495,000
Thereafter	<u>16,650,000</u>
	<u>\$18,465,000</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 7-Deferred Compensation Liability

In April 2011, the Foundation entered into an agreement to provide deferred compensation payments for the Executive Director of the Pennington Biomedical Research Center on behalf of the Center. The Foundation will make annual payments of \$15,000 for this purpose through 2015. The funds related to these payments will be held in the Foundation's name and included in investments until they are drawn upon. The liability represents funds held by the Foundation for this purpose, including investment returns earned less administrative costs incurred. The liability was \$30,000 and \$15,000 at December 31, 2012 and 2011, respectively.

Note 8-Net Assets Unrestricted - Designated

Unrestricted net assets designated by the Board of Trustees as of December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Series 2006 Bonds	\$18,465,000	\$18,755,000
Maintenance Reserve Accounts	<u>3,821,581</u>	<u>3,190,131</u>
	<u>\$22,286,581</u>	<u>\$21,945,131</u>

Note 9-Fair Value Measurements

In accordance with the Fair Value Measurements and Disclosure topic of FASB ASC, disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments; therefore, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

The fair value guidance provides a consistent definition of fair value, which focuses on exit pricing in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 9-Fair Value Measurements (Continued)

Fair Value Hierarchy

The Fair Value Measurements and Disclosures topic of the FASB ASC provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the framework are described as follows:

- Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation's investments in securities with readily determinable fair values are recorded at a value based on quoted market prices. For those investments where quoted prices are unavailable, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. The Foundation utilizes several externally managed fund of funds for private equity, venture capital, and hedge funds, and with these types of investments, quoted prices are often unavailable, and pricing inputs are generally unobservable. The Foundation relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities.

Assets measured at fair value on a recurring basis are comprised of the following:

	<u>2012</u>	<u>2011</u>
Investments	\$32,773,966	\$31,304,432
Assets Held in Trust	<u>2,101,115</u>	<u>2,352,820</u>
	<u>\$34,875,081</u>	<u>\$33,657,252</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 9-Fair Value of Financial Instruments (Continued)

Assets measured at fair value on a recurring basis are comprised of the following (continued)

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un- observable Inputs (Level 3)	Total
December 31, 2012				
Fixed income	\$13,804,572	\$ —	\$ —	\$13,804,572
Domestic equity	3,692,721	—	—	3,692,721
International equity	4,833,941	—	—	4,833,941
Commodity/MLP	1,625,685	—	—	1,625,685
REIT	449,773	—	—	449,773
Balanced funds	3,192,976	—	—	3,192,976
Hedge fund of funds	—	676,267	—	676,267
Venture capital	—	—	2,874,951	2,874,951
Mineral interest	—	—	950,577	950,577
Short-term investments	<u>2,773,618</u>	<u>—</u>	<u>—</u>	<u>2,773,618</u>
	<u>\$30,373,286</u>	<u>\$ 676,267</u>	<u>\$3,825,528</u>	<u>\$34,875,081</u>
December 31, 2011				
Fixed income	\$17,409,812	\$ —	\$ —	\$17,409,812
Domestic equity	3,735,848	—	—	3,735,848
International equity	5,423,967	—	—	5,423,967
Hedge fund of funds	—	1,053,221	—	1,053,221
Venture capital	—	—	2,258,465	2,258,465
Mineral interest	—	—	492,859	492,859
Short-term investments	<u>3,283,080</u>	<u>—</u>	<u>—</u>	<u>3,283,080</u>
	<u>\$29,852,707</u>	<u>\$1,053,221</u>	<u>\$2,751,324</u>	<u>\$33,657,252</u>

The following tables present the changes in fair value of Level 3 instruments that are measured at fair value on a recurring basis. At December 31, 2012 and 2011, changes in Level 3 assets measured at fair value are as follows:

	Level 3 Balance at Beginning of Year	Purchases	Realized & Unrealized Gains (Losses) in Changes in Net Assets	Level 3 Balance at End of Year	Change in Unrealized Gains (Losses) for Investments Still Held at Year End
December 31, 2012					
Venture capital	\$2,258,465	\$ 75,000	\$ 541,486	\$ 2,874,951	\$ 578,441
Mineral interest	<u>492,859</u>	<u>—</u>	<u>457,718</u>	<u>950,577</u>	<u>457,718</u>
	<u>\$2,751,324</u>	<u>\$ 75,000</u>	<u>\$ 999,204</u>	<u>\$3,825,528</u>	<u>\$ 1,036,159</u>
December 31, 2011					
Venture capital	\$1,701,497	\$ 50,000	\$ 506,968	\$2,258,465	\$ 529,138
Mineral interest	<u>357,465</u>	<u>—</u>	<u>135,394</u>	<u>492,859</u>	<u>135,394</u>
	<u>\$2,058,962</u>	<u>\$ 50,000</u>	<u>\$ 642,362</u>	<u>\$2,751,324</u>	<u>\$ 664,532</u>

**Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012**

Note 10-Rental Revenue

Basic Science Building

The Foundation leases the Basic Science Building to the Center under an operating lease in the amount of \$98,660 per year which expires in 2036 or when the related Series 2006 Bonds for the building are paid in full, whichever occurs first. Revenue from this lease was \$98,660 for the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the carrying value of the Basic Science Building was as follows:

	<u>2012</u>	<u>2011</u>
Cost	\$39,715,282	\$39,715,282
Accumulated depreciation	<u>(9,206,702)</u>	<u>(8,188,402)</u>
	<u>\$30,508,580</u>	<u>\$31,526,880</u>

Residence Center

The Foundation rents the C B Pennington Jr Residence Center to visiting faculty and potential recruits of the Pennington Biomedical Research Center. Rental terms and amounts vary depending on the nature of the usage. No rents were received for the year ended December 31, 2012. Rental revenue from this operation totaled \$25,214 (partial year) for the year ended December 31, 2011. Effective July 1, 2011, the Foundation transferred rental operations of the C B Pennington, Jr Residence Center to the Pennington Biomedical Research Center. The Board of Trustees of the Foundation agreed to provide marginal operating support to the Research Center for this operation up to a period of three years.

Note 11 – Related Party Transactions

The Foundation maintained the following related party transactions for the years ending December 31, 2012 and 2011:

Pennington Biomedical Research Center

The Foundation is a Type III supporting organization of the Pennington Biomedical Research Center (the Center), as defined by the Internal Revenue Service. As such, the Foundation provides annual financial support directly to or for the benefit of the Center for capital support and its medical research needs. Total program support of \$3,023,018 and \$3,283,536 was provided by the Foundation to or for the benefit of the Center for the years ended December 31, 2012 and 2011, respectively. The amount owed to the Center at December 31, 2012 and 2011 for this support and additional miscellaneous reimbursements was \$118,928 and \$125,799, respectively.

As referenced in Note 10, the Foundation leases the Basic Science Building to the Research Center. No amounts were due from the Center related to the Basic Science Building at December 31, 2012. The amount due from the Center at December 31, 2011 was \$8,213.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012

Note 11 – Related Party Transactions (Continued)

Pennington Biomedical Research Foundation

The Foundation maintains a memorandum of understanding with the Pennington Biomedical Research Foundation, an organization related by common management, for providing accounting services and administrative support to the Foundation. The total amount paid by the Foundation for these services was \$50,000 and \$59,076 for the years ended December 31, 2012 and 2011, respectively. The amount owed to the Research Foundation for these services and additional miscellaneous reimbursements at December 31, 2012 and 2011 was \$13,795 and \$13,419, respectively.

The Foundation maintains a memorandum of understanding with the Pennington Biomedical Research Foundation for operating the C B Pennington Jr Residence Center. The Research Foundation collects rental income and pays certain operating expenses for the facility. The Research Foundation then remits the net revenues for the facility to the Foundation on a quarterly basis. The Research Foundation did not pay any net revenues to the Foundation during the year ended December 31, 2012. The Research Foundation paid net revenues of \$25,214 to the Foundation for the year ended December 31, 2011. There were no net revenues due to the Foundation at December 31, 2012 and 2011 since the Foundation transferred operation of the facility on July 1, 2011. The Foundation continues to support the operations of the Residence Center by paying a quarterly stipend to the Research Foundation as well as other expenses related to operations. Total expenses related to this support were \$35,845 and \$74,927 for the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the summarized amounts due to/from related parties are as follows:

	<u>2012</u>	<u>2011</u>
Pennington Biomedical Research Center		
Basic Science Building rent	\$ —	\$ 8,213
Program Services support	<u>(118,928)</u>	<u>(125,799)</u>
Due to/from Center	(118,928)	(117,586)
Pennington Biomedical Research Foundation		
Program Services support	<u>(13,795)</u>	<u>(13,419)</u>
Totals Due to/from Related Parties	<u><u>\$(132,723)</u></u>	<u><u>\$(131,005)</u></u>

**Pennington Medical Foundation
Notes to Financial Statements
December 31, 2012**

Note 12-Commitments

The Foundation has an agreement to invest \$95,000 in Themelios Ventures II, L P and Louisiana Fund I, L P venture capital partnership

The Foundation has an agreement to fund an additional \$227,540 to support Pennington Biomedical Research Center's Executive Director Fund

The Foundation has committed to provide deferred compensation payments for the Executive Director of Pennington Biomedical Research Center on behalf of the Center The remaining commitment is \$45,000 through 2015

Note 13-Subsequent Events

The Foundation evaluated all subsequent events through June 4, 2013, the date the financial statements were available to be issued As a result, the Foundation noted no subsequent events which require adjustment to, or disclosure in, these financial statements